

WASTEWATER CONTROL PROJECT FUNDING IN MICHIGAN

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With a few temporary exceptions, the State Water Pollution Control Revolving Fund, or SRF, is the sole source of State financial support for local wastewater treatment and control projects. Operated jointly by the Michigan Department of Environmental Quality (MDEQ) and the Michigan Municipal Bond Authority (MMBA), the SRF provides loans at below-market rates to local units of government for qualifying projects. Currently, demand for SRF assistance exceeds the resources available from the Fund. Recent studies, at both the State and national levels, indicate that demand for assistance is likely to grow. The following discussion provides information on the background, operation, and accomplishments of the SRF, as well as proposed legislation designed to address the growing demand for SRF assistance.

Background

Prior to 1987 amendments to the Federal Clean Water Act, the Federal government provided funding to local governments, through a construction grants program, for the construction of public wastewater treatment facilities. The 1987 amendments provided for the phase-out of the Federal grant program, and substituted seed money for state revolving funds. The effect was to shift primary responsibility for the construction of wastewater facilities to state and local units of government.

The 1987 amendments authorized \$18 billion for wastewater treatment plants over an eight-year period. From that amount, \$9.6 billion was to be available to continue the construction grants program through fiscal year (FY) 1990, although states had the discretion to transfer the grant funds to a state revolving fund. The remainder of the funding, beginning in FY 1989, was for capitalization grants for the state revolving funds, with the last authorized amount in FY 1994. The Federal capitalization grants for state revolving funds have never been reauthorized by Congress, but instead have continued to be available through Federal appropriations. [Table 1](#) compares Federal authorizations with Federal appropriations from FY 1989, the first year of the program, through the President's proposed FY 2002 budget.

Table 1		
Federal SRF Authorizations vs. Appropriations		
FY 1989 to FY 2002^{a)}		
(in millions)		
Year	Authorization	Appropriation
1989	\$1,200	\$950
1990	1,200	980
1991	2,400	2,030
1992	1,800	1,950
1993	1,200	1,930
1994	600	1,200
1995	NA	1,235
1996	NA	2,074
1997	NA	625
1998	NA	1,350
1999	NA	1,350
2000	NA	1,350
2001	NA	1,350
2002	NA	850
a) FY 2002 is based on the President's budget proposal. An additional \$450 million is proposed to fund the new Sewer Overflow Control Grants Program authorized in 2000.		

In order to receive a Federal capitalization grant, states must provide matching funds equal to 20% of the Federal grant.

Michigan's SRF Experience

Michigan began to operate a State Revolving Fund in 1989. Between 1989 and 1992, the SRF was operated as a direct loan program. Under this program, the Federal capitalization grant and the State matching funds were loaned, at below-market rates, directly to local governments. Principal and interest payments were to be deposited into the SRF for future loans. Through 1992, the direct loan program provided approximately \$206 million at a 2% interest rate to local units of government, to be repaid over a 20-year period. In FY 2000-01, the SRF is expected to receive nearly \$9 million in interest and principal payments on the direct loans that were made between FY 1988-89 and FY 1991-92.

Beginning in FY 1992-93, instead of providing direct loans, the State used the Federal capitalization grant and the State matching funds to provide the reserves necessary for the sale of SRF revenue bonds. Revenue from the sale of bonds is provided to local units of government in the form of a loan with a 20-year amortization period, and below-market interest rates. In FY 2000-01, the interest rate charged to local units is 2.5%, compared with the 5% to 6% interest rate available to local governments in the open market. Through this new mechanism, the State is able to leverage a much greater pool of funding from which to make loans to local governments than under the direct loan program. [Table 2](#) compares the amounts available from the Federal capitalization grant and State matching funds with the amounts made available since FY 1992-93 for water pollution control project loans.

The Federal and State laws allow the provision of loans from the SRF for construction of sewage treatment works projects, stormwater treatment projects, and nonpoint source projects. To date, Michigan's SRF has provided loans for sewage treatment works projects only. The categories of wastewater treatment works projects eligible for assistance, under Federal and State laws, are treatment facility improvements involving secondary or advanced treatment; minor and major rehabilitation of existing sewers; new collector sewers; new interceptor sewers; and combined sewer overflow (CSO) control. Almost any phase or element of a public wastewater treatment project would be eligible for SRF assistance, with the exception of the provision of new sewers to support new development. Through FY 1999-2000, 48% of the SRF assistance has supported CSO projects.

Qualifying for SRF Loan Assistance

The Federal Clean Water Act and Part 53, Clean Water Assistance, of the State's Natural Resources and Environmental Protection Act (NREPA) provide the guidelines for receiving assistance through the SRF.

To qualify for a loan from the SRF, a local governmental unit must submit a project plan to the MDEQ by July 1 of each year in order to be considered for funding in the succeeding fiscal year. The local government must document, in the project plan, a water quality or a public health problem. The project plan also must contain basic information about the proposed project, including background information on existing wastewater facilities, population data, and economic information; an analysis of alternative approaches to the project; a description of the selected project; an evaluation of project environmental impacts and proposed mitigation; and a demonstration that there has been public participation in project planning.

Table 2

Federal and State Capitalization vs. Total SRF Loan Commitments FY 1992-93 to FY 2000-01				
Fiscal Year	Federal Cap Grant	State Matching Funds	Total Capitalization	SRF Loan Commitments
1992-93	\$92,748,548	\$18,549,710	\$111,298,258	\$120,720,000
1993-94	53,595,202	10,719,040	64,314,242	69,545,000
1994-95	52,961,238	10,592,248	63,553,486	70,130,000
1995-96	86,752,116	17,350,423	104,102,539	136,230,000
1996-97	26,798,013	5,359,603	32,157,616	103,735,000
1997-98	57,882,966	11,576,593	69,459,559	126,925,000
1998-99	65,654,797	13,130,959	78,785,756	240,990,000
1999-2000	57,904,704	11,580,800	69,485,504	194,595,000
2000-01	57,708,000	11,542,000	69,250,000	210,000,000

The project plans are ranked by the MDEQ and placed on an annual Project Priority List (PPL). The criteria for ranking projects are set forth in Section 5303 of the NREPA. The criteria for inclusion on the PPL include project compliance with applicable standards of the water resources protection provisions of the NREPA (Part 31) and the Federal Water Pollution Control Act. First priority is given to segments of projects that had received funding under the Federal construction grants program, or the SRF for up to three years after funds from those sources were committed to the project. In addition, sewer and stormwater treatment projects are scored on the following criteria:

1. The severity of the water pollution problem to be addressed.
2. Whether a project is necessary to comply with a construction schedule established by an order, permit, or other document issued by the MDEQ, or entered as part of an action brought by the State against a local government.
3. The size of the population to be served by a project.
4. The dilution ratio between the existing wastewater discharge volume and the flow of the receiving water; in other words, the capacity of the receiving water to dilute and disperse the discharge.

Once projects are ranked, the MDEQ determines the fundable range, which consists of the projects on the PPL, taken in descending order, for which it is estimated that funds are available to provide assistance at the beginning of each annual funding cycle. Projects may be segmented if the total project costs are greater than 30% of the amounts available from the Fund, and the MDEQ approves a request to segment a project.

Local governments having projects within the fundable range must apply to the MDEQ for assistance from the SRF. In applying for assistance the local government must submit, among other plans, specifications, permits, and contracts, documentation that a dedicated source of revenue is established and dedicated to repay loans from the SRF, and to fund operation and maintenance of the project. The MDEQ issues an order of approval for projects that successfully complete all of the required steps and certifications within designated timelines, and that fall within the fundable range. Projects in the fundable range that fail to meet all of the application requirements and timelines are bypassed, and projects lower on the PPL are moved up into the fundable range in rank order. A bypassed project is not eligible for funding in the funding cycle in which it was bypassed until all of the other projects in the fundable range are funded or rejected.

Finally, because all municipalities in Michigan must issue bonds to incur debt, a successful SRF applicant must prepare a bond issue to actually receive a loan under the program. The applicant does not have to sell the bonds on the open market. Instead, the local unit of government undertakes all of the steps involved

in a bond issue up to the point of sale. The MMBA assesses the bond rating of the issue and the applicant's financial status, and, upon a positive review and an order of approval from the MDEQ, the MMBA purchases the applicant's bonds.

Accomplishments of the SRF

Through FY 1999-2000, the SRF has provided loan assistance totaling \$1,269,390,000 for 174 projects. Federal capitalization grants and State matching funds over the same period of time totaled \$900,902,230. The MDEQ anticipates that another \$210 million will be available from the SRF in FY 2000-01.

While the SRF will have made nearly \$1.5 billion in loan commitments by the end of FY 2000-01, demand for assistance from the SRF significantly exceeds that amount. In FY 1999-2000, there were 42 projects totaling \$1.5 billion on the PPL. Nine of those projects were funded, with binding commitments totaling \$194 million. Included among the FY 1999-2000 projects was a single project in the City of Detroit with total project costs exceeding \$900 million, and a FY 1999-2000 commitment of slightly less than \$60,000,000. Without the Detroit project, annual demand on the SRF has averaged approximately \$560 million since FY 1995-96. Amounts available from the SRF annually could support less than half of that demand. Current demand for SRF assistance clearly exceeds the resources available. If estimates of need for wastewater treatment facility construction assistance are considered, and that need is translated into demand for assistance, pressure on the SRF might be expected to grow. The last needs survey conducted by the MDEQ for the Federal Environmental Protection Agency was in 1996. The estimated need for wastewater construction projects in the State, at that time, totaled \$5.1 billion. Again, over \$1 billion of that estimate can be attributed to the City of Detroit.

Proposed Legislation

Legislation aimed at increasing the resources available for wastewater treatment and control projects has been proposed in both the House and the Senate. Senate Bill 105 (S-3), passed by the Senate on March 28, 2001, would appropriate and transfer up to \$25 million from the Budget Stabilization Fund (BSF) to the SRF for five years beginning in FY 2001-02. The transfer and appropriation proposed by the bill would not occur unless the State Budget Director certified to the Legislature that Federal funding for the SRF was available in excess of the amounts available from the Federal government for that purpose in FY 2000-01. The amount of the appropriation and transfer from the BSF would be limited to only those amounts necessary to provide the State match required to receive the additional Federal dollars, up to \$25 million.

House Bill 4625, introduced on April 19, 2001, would make additional State resources available for water pollution control projects that prevent discharges of untreated or improperly treated sewage into the waters of the State through the issuance of \$1 billion in State general obligation bonds. The proceeds of the bonds would be used to finance water pollution control projects, not necessarily through the SRF mechanism. Such a bond issue would be subject to a vote of the people of the State.